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5 In the Matter of

No. G02-45

6 THE APPLICATION REGARDING
7 THE CONVERSION AND
8 ACQUISITION OF CONTROL OF
9 PREMIERA BLUE CROSS AND ITS
10 AFFILIATES

SECOND STATUS REPORT OF OIC
STAFF

11 In compliance with the instructions contained in the Third Order: Ruling on
12 PREMIERA's Objections to the Case Management Order issued by the Commissioner on
13 December 23, 2002, the OIC Staff hereby submits its Second Status Report regarding the
14 progress of the parties since submission of the First Status Report of OIC Staff ("First
15 Report").

16 INTRODUCTION

17 The OIC Staff or the OIC Staff's consultants ("OIC Consultants") and representatives
18 of PREMIERA have on, at least a daily basis, communicated for the purpose of expediting the
19 information-gathering phase of this process. Although a great deal of information has been
20 obtained, this phase is far from complete. In general, PREMIERA has cooperated but
21 gathering the requested information has been time consuming and much yet remains to be
22 produced.

23 On January 7, 2003, representatives of the OIC Staff and the consultants, including
24 experts retained by the Alaska Division of Insurance ("Alaska Consultants"), met with
25 representatives of PREMIERA concerning the status of the responses to data requests. During
26 that meeting, PREMIERA requested and the consultants provided definition and clarification
regarding specific document requests. At that time, PREMIERA acknowledged that further

1 document production will be facilitated as a result of the meeting. After the meeting, the
2 consultants expressed confidence that the parties are generally in agreement about what has
3 and what has not been produced to date.

4 During a meeting that occurred on January 9, 2003 between representatives of
5 PREMERA and the OIC Staff, PREMERA agreed to identify all remaining issues regarding
6 specific document requests so that the process of resolving the issues may be initiated.

7 **DATA OR INFORMATION REQUESTS AND RESPONSES**

8 In addition to those requests for data and information detailed in the First Report, the
9 OIC Consultants have presented numerous subsequent requests to PREMERA including
10 verbal as well as written requests. PREMERA has submitted responses to a number of these
11 requests some of which are incomplete. Further, many of the requests detailed in the First
12 Report have yet to be addressed by PREMERA and a number of the responses to such
13 requests are incomplete. For instance, PREMERA has not yet submitted a response to several
14 requests that were presented on October 22, 2002.¹ Moreover, PREMERA has not responded
15 to the deficiency letter dated November 19, 2002. It is anticipated that the definition and
16 clarification provided during the January 7, 2003 meeting discussed above will permit
17 resolution of many outstanding requests. A summary of the current status of the data requests
18 submitted by the consultants is attached, marked as Exhibit "A" and incorporated herein by
19 reference.² Similar versions of this exhibit, as well as of the other exhibits, have previously
20 been shared with PREMERA.³

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22 ¹ See, e.g., Exhibit "A": WA 112 (detailed schedule on severance and other payroll expenses for top
executives); WA 121 (summary of any lawsuit initiated by PREMERA).

23 ² The item request numbers are located in the leftmost column entitled "Request No." The requests are
24 listed consecutively. This exhibit reflects the status of requests submitted by both the OIC Consultants and the
Alaska Consultants as of January 13, 2003 accompanied by PREMERA's response or comment.

25 ³ The parties cooperated in preparation of these exhibits. The exhibits are not intended to address any
26 issues that have arisen or that may arise relating to whether requested information is subject to the attorney-client
or work product privilege or to any confidentiality obligation. Nor is it intended that any disclosure contained in
the exhibits constitute a waiver of PREMERA's right to assert the attorney-client or work product privilege or any

1 Further, four questions were submitted by the OIC Consultants to PREMERA on
2 December 13, 2002 to which a response is yet to be received. Those questions are contained
3 in an instrument that is attached, marked as Exhibit “B” and incorporated by reference.

4 The Alaska Division of Insurance has also retained consultants who are assisting that
5 Division in analyzing the proposal as it pertains to the business of PREMERA in Alaska.
6 Both the Alaska Consultants and the OIC Consultants have consolidated information requests
7 and taken other steps to minimize duplication of effort. With respect to the issues that are
8 common to both Alaska and Washington, it is important that the findings and conclusions of
9 the Alaska Consultants be concluded in time for presentation in this proceeding for
10 consideration by the Commissioner. For example, determination of how the potential
11 conversion proceeds should be allocated between Alaska and Washington will require
12 consideration of the findings and conclusions of both the Alaska Consultants and the OIC
13 Consultants relating to that issue. Therefore, the OIC Staff is including information about the
14 status of the Alaska Consultants’ document and information requests in this report. The
15 current status of the document and information requests submitted to PREMERA by the
16 Alaska Consultants is included in Exhibit “A.”⁴

17 **INTERVIEWS OF PREMERA PERSONNEL AND ADVISORS**

18 Both the OIC Consultants and the Alaska Consultants have participated in a series of
19 interviews of management and advisors of PREMERA. This includes both face-to-face
20 meetings, teleconferences and a combination of both. The interviews are not complete with a
21 number of meetings currently scheduled and some in the process of being scheduled. A
22 summary of the current status of the interviews is attached, marked as Exhibit “C” and
23 incorporated by reference. Further, it is likely that follow up meetings will be necessary as a
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25 other laws relating to the confidentiality of the underlying information that has been produced or will be produced
26 in this proceeding.

⁴ See, e.g., the requests with prefixes of “B” or “C.”.

1 result of information and questions arising out of additional documents that PREMERA will
2 produce and out of other interviews.

3 **ESTIMATES OF TIME TO PREPARE REPORTS**

4 The OIC Consultants currently estimate that at least fifty days will be required after
5 receipt of substantially all of the requested documents and information including completion
6 of the interviews in order to prepare substantially complete draft written reports regarding the
7 proposed transaction. In addition, Cantilo & Bennett, the OIC Staff's legal consultant, will
8 require an additional seven to fourteen days to prepare its draft report since a significant part
9 of its analysis requires reliance upon the findings and conclusions of the other OIC
10 Consultants. The Alaska Consultants' estimates are consistent with these estimates.

11 **OTHER SIGNIFICANT FACTORS**

12 As is the usual case in Form A proceedings, it is anticipated that prior to submission
13 by the OIC Consultants of their draft reports, the OIC Staff will share with PREMERA's
14 representatives any major concerns that have arisen with respect to the proposal. The OIC
15 Staff intends to bring such concerns to the attention of PREMERA as soon as practicable.
16 After the draft reports are submitted, PREMERA may elect to amend or supplement its
17 proposal to address those concerns and may require additional time to do so. The amount of
18 additional time will depend upon the character and number of issues addressed by
19 PREMERA. If PREMERA amends or supplements its proposal, it is likely that a further
20 extension of time will be necessary for the consultants to review the changes and to deal with
21 them in their reports.

22 A portion of the requested documents are not in the possession or under the control of
23 PREMERA. The consultants have, therefore, attempted to reconstruct, and will continue to
24 attempt to reconstruct, those documents from other sources. In many instances, they have
25 been successful. Prior to rendering any reports, the consultants seek PREMERA's
26 acknowledgement that the consultants may rely upon the reconstructed documents to the same

1 extent as if they had been obtained from PREMIERA. Representatives of PREMIERA have
2 indicated a willingness to provide the requested acknowledgement subject to review of the
3 specific documents.

4 MISCELLANEOUS

5 Currently, all but one of the consultants has executed personal services contracts or
6 other agreements with respect to this proceeding. The sole exception is Signal Hill Capital
7 Group, an investment banking firm, which is in the process of finalizing its personal services
8 contract with the Alaska Division of Insurance. In addition, still remaining to be executed are
9 indemnification agreements between PREMIERA and several of the consultants. The OIC
10 Consultants requiring indemnification agreements are The Blackstone Group and
11 PricewaterhouseCoopers. Although indemnification agreements are typically pre-requisites to
12 beginning these types of engagements, the foregoing consultants are working on this
13 engagement in the good faith belief that appropriate indemnification agreements will soon be
14 executed. The OIC Staff is informed that PREMIERA and the consultants are in the process of
15 finalizing these agreements.

16 DATED this 14th day of January, 2003.

17 Respectfully submitted,

18 OFFICE OF INSURANCE COMMISSIONER
19 STATE OF WASHINGTON

20
21 By: _____
22 John F. Hamje
23 Staff Attorney WSBA #32400
24 Legal Affairs Division
25 Office of Insurance Commissioner
26 360-725-7046
360-586-3109 (Facsimile)

CERTIFICATE OF SERVICE

Pursuant to WAC 10-08-110(3), I certify under penalty of perjury under the laws of the State of Washington that this instrument was served upon all parties of record in this proceeding by transmitting a copy thereof by FAX, and, on the same day, mailing a copy thereof, properly addressed with postage prepaid, to the attorney for each party to the proceeding.

Dated: January 14, 2003
At Tumwater, Washington

John F. Hamje